

Baldwin Public Library
(a component unit of the
City of Birmingham, Michigan)

Financial Report
June 30, 2008

Baldwin Public Library

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Independent Auditor's Report

To the Board of Directors
Baldwin Public Library

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Birmingham, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 4, 2008, which expressed unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Those basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Birmingham, Michigan's basic financial statements. The accompanying financial statements of Baldwin Public Library are presented for the purpose of additional analysis and are not a required part of the City's basic financial statements. The information presented has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 4, 2008

Baldwin Public Library

Balance Sheet/Statement of Net Assets June 30, 2008

	Balance Sheet - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual	Component Unit - Baldwin Public Library Trust
Assets				
Cash and investments	\$ 2,138,690	\$ -	\$ 2,138,690	\$ 878,697
Due from other governmental units	54,222	-	54,222	-
Capital assets (Note 3)	-	3,691,599	3,691,599	-
Total assets	<u>\$ 2,192,912</u>	3,691,599	5,884,511	878,697
Liabilities				
Accounts payable	\$ 205,030	-	205,030	-
Accrued and other liabilities	<u>202,218</u>	-	<u>202,218</u>	-
Total liabilities	407,248	-	<u>407,248</u>	-
Fund Balance - Unreserved	<u>1,785,664</u>	<u>(1,785,664)</u>		
Total liabilities and fund balance	<u>\$ 2,192,912</u>			
Net Assets				
Invested in capital assets		3,691,599	3,691,599	-
Unrestricted		<u>1,785,664</u>	<u>1,785,664</u>	<u>878,697</u>
Total net assets		<u>\$ 5,477,263</u>	<u>\$ 5,477,263</u>	<u>\$ 878,697</u>

Baldwin Public Library

Statement of Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2008

	Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual	Component Unit - Baldwin Public Library Trust
Revenue				
Property tax	\$ 3,067,474	\$ -	\$ 3,067,474	\$ -
Penal fines	44,125	-	44,125	-
State grants	20,081	-	20,081	-
Community contracts	667,102	-	667,102	-
Fines and fees	92,359	-	92,359	-
Miscellaneous	10,148	-	10,148	3,023
Investment earnings (losses)	218,835	-	218,835	(70,414)
Contributions	-	-	-	69,390
Total revenue	4,120,124	-	4,120,124	1,999
Expenditures				
Personnel services	2,235,376	-	2,235,376	-
Supplies	92,363	-	92,363	6,932
City-provided services	207,440	-	207,440	-
Professional services	17,364	-	17,364	-
Utilities	106,746	-	106,746	-
Contracted services	149,454	-	149,454	975
Operational costs	99,904	-	99,904	38,913
Building improvement	923,414	(828,176)	95,238	-
Virtual services	163,584	(146,712)	16,872	-
Print collections	294,092	(263,760)	30,332	10,821
Nonprint collections	157,635	(141,377)	16,258	-
Capital outlay	69,997	(62,778)	7,219	-
Depreciation	-	649,663	649,663	-
Gain on disposal of assets	-	3,217	3,217	-
Total expenditures	4,517,369	(789,923)	3,727,446	57,641
Change in Fund Balance/Net Assets	(397,245)	789,923	392,678	(55,642)
Fund Balance/Net Assets				
Beginning of year	2,182,909	2,901,676	5,084,585	934,339
End of year	<u>\$ 1,785,664</u>	<u>\$ 3,691,599</u>	<u>\$ 5,477,263</u>	<u>\$ 878,697</u>

Baldwin Public Library

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Prior Year Actual - Modified Accrual	Current Year - Modified Accrual			
		Originally Adopted Budget	Amended Budget	Actual	Variance
Revenue					
Property tax	\$ 2,916,243	\$ 3,419,810	\$ 4,086,751	\$ 3,067,474	\$ (1,019,277)
Penal fines	46,348	50,000	50,000	44,125	(5,875)
State grants	24,313	25,000	25,000	20,081	(4,919)
State inventory tax reimbursement	13,992	-	-	-	-
Community contracts	638,360	684,230	684,230	667,102	(17,128)
Fines and fees	86,883	97,000	97,000	92,359	(4,641)
Miscellaneous	15,044	16,250	16,250	10,148	(6,102)
Investment earnings	166,523	118,070	118,070	218,835	100,765
Total revenue	3,907,706	4,410,360	5,077,301	4,120,124	(957,177)
Expenditures					
Personnel services	2,103,708	2,482,520	2,506,176	2,235,376	270,800
Supplies	57,565	90,000	90,000	92,363	(2,363)
City-provided services	272,403	208,070	208,070	207,440	630
Professional services	28,338	35,000	35,000	17,364	17,636
Utilities	111,719	141,000	141,000	106,746	34,254
Contracted services	119,440	230,000	190,000	149,454	40,546
Operational costs	97,189	111,970	111,970	99,904	12,066
Building improvement	-	300,000	1,008,230	923,414	84,816
Virtual services	138,846	184,000	192,500	163,584	28,916
Print collections	273,183	322,500	322,500	294,092	28,408
Nonprint collections	121,354	157,750	157,750	157,635	115
Capital outlay	80,040	100,000	114,105	69,997	44,108
Total expenditures	3,403,785	4,362,810	5,077,301	4,517,369	559,932
Change in Fund Balance	\$ 503,921	\$ 47,550	\$ -	\$ (397,245)	\$ (397,245)

Note I - Summary of Significant Accounting Policies

The accounting policies of Baldwin Public Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

Reporting Entity

The Library is governed by a six-member board elected by the citizens of Birmingham, Michigan. It is also reported as a component unit of the City of Birmingham, Michigan (the "City").

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, these statements include the activity of the Baldwin Public Library Trust (the "Trust"). The Trust is a legally separate, tax-exempt entity that acts primarily as a fund-raising organization to supplement the resources that are available to the Baldwin Public Library in support of its programs.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Service contract revenue meets the availability criterion and is accrued as of year end.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

In addition to presenting information for the General Fund on the modified accrual basis (as budgeted), the financial statements present information for the Library using the economic resources measurement focus and the accrual basis of accounting. This information is intended to demonstrate the degree to which taxpayers have funded the full cost of services received. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Investments are recorded at fair value as of June 30, 2008, based on quoted market prices.

Capital Assets - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Library building is owned by the City of Birmingham, Michigan and is not reported in these statements; the debt related to the building is also reported in the City's financial statements.

Building improvements, furniture and fixtures, equipment, library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Building improvements	15 years
Furniture and fixtures	10 years
Library books, periodicals, etc.	10 years
Equipment	5 years

Baldwin Public Library

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. It is not the Library's policy to pay out any unused sick benefits upon separation from employment (retirement, termination, etc.); therefore, sick benefits are not accrued. All vacation is accrued when incurred in the government-wide financial statements. A liability for vacation amounts is reported in governmental funds only for employee terminations as of year end.

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls. The Library's property tax revenue for the fiscal year ended June 30, 2008 is based on the 2007 levy, which was billed July 1, 2007.

The 2007 taxable value totaled \$2,112,231,051; the Library's millage rate was 1.4652 mills, which resulted in property tax billings of \$3,094,841. The amount recognized as revenue reflects reductions for the Board of Review, Michigan Tax Tribunal, and delinquencies, as well as recoveries of prior year delinquencies.

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

As discussed in Note 1, the General Fund is presented on the modified accrual basis of accounting, and the Library as a whole (which consists only of its General Fund) is also presented on the full accrual basis. The following is a reconciliation of fund balance on the modified accrual basis of accounting to net assets presented on the full accrual basis:

Total Fund Balance - Modified Accrual Basis	\$ 1,785,664
Amounts reported in the statement of net assets are different because capital assets are not financial resources and are not reported in the funds	<u>3,691,599</u>
Total Net Assets - Full Accrual Basis	<u><u>\$ 5,477,263</u></u>

Baldwin Public Library

Notes to Financial Statements June 30, 2008

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

The following is a reconciliation of the changes in fund balance on the modified accrual basis to the change in net assets on the full accrual basis:

Net Change in Fund Balances - Modified Accrual Basis \$ (397,245)

Amounts reported in the statement of activities are different because:

Capital outlay is not an expense of the current period	1,442,803
Capital costs are allocated over their estimated useful lives as depreciation	(649,663)
The disposal of capital assets is reported as a charge to expenses	(3,217)

Change in Net Assets of Governmental Activities \$ 392,678

Note 3 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Depreciable capital assets:				
Furniture and fixtures	\$ 485,252	\$ 85,771	\$ 28,663	\$ 542,360
Equipment	647,759	69,491	12,841	704,409
Building improvements	875,037	818,748	2,244	1,691,541
Books, periodicals, etc.	<u>8,389,609</u>	<u>468,793</u>	<u>87,797</u>	<u>8,770,605</u>
Subtotal	10,397,657	1,442,803	131,545	11,708,915
Less accumulated depreciation	<u>7,591,481</u>	<u>649,663</u>	<u>128,328</u>	<u>8,112,816</u>
Subtotal	2,806,176	793,140	3,217	3,596,099
Fine arts - Not subject to depreciation because they are inexhaustible	<u>95,500</u>	-	-	95,500
Net capital assets	<u><u>\$ 2,901,676</u></u>	<u><u>\$ 793,140</u></u>	<u><u>\$ 3,217</u></u>	<u><u>\$ 3,691,599</u></u>

Capital assets, including library books, are recorded at cost. Depreciation expense was \$649,663 for the year ended June 30, 2008.

Baldwin Public Library

Notes to Financial Statements June 30, 2008

Note 4 - Budget Information

The annual budget is prepared by the director and adopted by the library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the library board is included in the basic financial statements.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Baldwin Public Library incurred expenditures that were in excess of the amounts budgeted in the following line item:

	Amended Budget	Actual	Variance
Supplies	\$ 90,000	\$ 92,363	\$ (2,363)

The unfavorable expenditure variance relates to the purchase of security tags for the CD and DVD collection from Michigan Library Consortium.

Note 5 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library participates with the City in the Michigan Municipal League program for claims relating to workers' compensation, general liability, and property loss and participates in the City's self-insurance program for employee health and dental claims.

The Michigan Municipal League program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Through the City, the Library estimates the liability for general liability and employee health and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the City's Risk Management Internal Service Fund. Changes in the estimated liability for the City for the past two fiscal years are presented in the City's June 30, 2008 annual financial report.

Note 6 - Pension Plan

Plan Description - The Library participates in the City of Birmingham Employees' Retirement System (the "System"), a single-employer defined benefit pension plan that is administered by the City of Birmingham Employees' Retirement System Pension Board; this plan covers all full-time employees of the City and the Library. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the System at the City of Birmingham, 151 Martin, P.O. Box 3001, Birmingham, Michigan 48009.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the Library's employees of 2 percent to 4 percent of their covered salary. The funding policy provides for periodic employer contributions at actuarially determined rates. In accordance with these requirements, the City contributed \$1,034,107 during the current year and the employees contributed \$368,140.

Annual Pension Cost - The annual required contribution was determined as part of an actuarial valuation at June 30, 2007, using the entry age actual cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4 percent per year, (c) additional projected salary increases ranging from 0.0 percent to 3.8 percent per year depending on age and seniority/merit, and (d) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The full funding credit is being amortized as a level percentage of payroll over a period not less than 15 years. Six-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2008 annual financial report.

Note 7 - Postemployment Benefits

Plan Description - The Library participates in the City of Birmingham Employees' Retiree Health Care Fund (the "RHCF"), a single-employer defined benefit healthcare plan that is administered by the City of Birmingham Employees' Retirement System. This plan covers most full-time employees of the City and the Library. The RHCF provides medical and prescription benefits to eligible retirees and their dependents.

Note 7 - Postemployment Benefits (Continued)

Funding Policy - The obligation to contribute to and maintain the RHCF for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the active library employees of 1.5 percent to 3 percent of their covered salary. Retirees or their beneficiaries hired prior to July 1, 2002 contribute \$20 to \$40. The funding policy provides for employer contributions at actuarially determined rates. In accordance with these requirements, the City contributed \$1.8 million during the current year, and the employees contributed \$302,941.

Annual Pension Cost - The annual required contribution was determined as part of an actuarial valuation at June 30, 2007, using the entry age actual cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) healthcare cost trends ranging from 10 percent initial to 4 percent ultimate. The full funding credit is being amortized as a level percentage of payroll over a period not less than 30 years. Historical trend information showing the RHCF's progress in accumulating sufficient assets to pay benefits when due is presented in the City's June 30, 2008 annual financial report.



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November 4, 2008

To the Library Board Members
Baldwin Public Library
300 West Merrill
Birmingham, MI 48009

Dear Board Members:

We recently completed our audit of the financial statements of the Baldwin Public Library (the "Library") for the year ended June 30, 2008. While not required as part of an audit, we frequently note certain matters over the course of an audit which we feel would be helpful to communicate to management or the board. As a result, we are pleased to offer the following comments and recommendations for your consideration:

Administrative Costs - The most significant issue that came to our attention is one that management certainly is aware of. The services performed by the City on behalf of the Library are not formally agreed upon. While not required, we do believe it is a "best practice" for related organizations to have formalized agreements in place for services being provided and paid for. This provides evidence that such services and transactions are being evaluated and approved to give consideration to the fairness and appropriateness by each party. Such arrangements should also have specified time frames by which the services and pricing arrangements will be reassessed to determine they are still proper.

Financial Statements - You will notice that the financial statements for the current year have differing classifications or descriptions of certain expenditures when compared to past years. Management has made these slight modifications to better reflect expenditure classifications and to provide better consistency with how expenditures are described in other documents (budget, board packages, etc.).

As you will note in Note 7 of the financial statements, the Governmental Accounting Standards Board Statement Number 45 was adopted this year. This pronouncement means that retiree health care is now being funded on an actuarial basis similar to the accounting for pension funds. The Library participates in the City of Birmingham's Retiree Health Care Fund which has fully funded the required obligation for the year ended June 30, 2008 and, therefore, no liability was required to be recorded.

We would like to thank the library board for the opportunity to serve as auditors for the Library. We would also like to express our appreciation for the courtesy and cooperation extended to us by the Library's staff during the audit. If you would like to discuss any of these matters or would like our assistance in their implementation, please contact us.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in purple ink, appearing to read "Christopher Jones", is written in a cursive style.

Christopher S. Jones